

SECTION 3 – RISKS OF OTHER COMPANIES

Risks of other companies are essentially concentrated in the companies Romulus Funding Corporation and Duomo Funding Plc, subsidiaries included within the scope of consolidation pursuant to IFRS 10, and in the Risanamento Group companies, consolidated for accounting purposes starting in 2015, but not subject to management and coordination.

THE VEHICLES ROMULUS FUNDING CORPORATION AND DUOMO FUNDING PLC

Qualitative and quantitative information

These two special-purpose vehicles are the Intesa Sanpaolo Group's asset-backed commercial paper conduits, originally established to support Intesa Sanpaolo's strategy of offering customers an alternative financing channel via access to the international asset-backed commercial paper market. The assets originated by European customers are purchased by Duomo, whereas Romulus is responsible for U.S. assets and fund-raising on the U.S. market through the issuance of asset-backed commercial paper. Nonetheless, due to the subsequent downgrading of Intesa Sanpaolo at the end of 2014, U.S. investors gradually divested without the vehicle being able to find new third-party investors with which to place the asset-backed commercial papers. As at 31 December 2017, 5.1 billion euro of the securities issued by Romulus had been subscribed by the Parent Company Intesa Sanpaolo for around 4.9 billion euro.

The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks.

As already indicated for Banking Group risks, risk management performs dynamic hedging on the OTC derivatives market to manage both volatility and interest rate risk, as well as listed derivatives to optimise interest rate strategies.

Companies are not generally permitted to take foreign-exchange positions.

As at 31 December 2017, the investment portfolio of the vehicle Romulus included 5.1 billion euro of loans with the vehicle Duomo, in addition to cash, other assets and positive fair value of hedging derivatives for a total of around 1 million euro.

Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 5.1 billion euro, almost all of which has been subscribed by the Parent Company, Intesa Sanpaolo.

With regard to the portfolio of the vehicle Duomo, at the end of 2017 – in addition to receivables from Intesa Sanpaolo Group banks of 2.5 billion euro – this portfolio mainly consisted of loans to customers of 2.4 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2017.

		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
ROMULUS FUNDING CORP.	Asset backed commercial paper conduit	5,078 ⁽¹⁾	-	-	-	-	-	5,078	4,929	Loans	Amortised cost
DUOMO FUNDING PLC	Asset backed commercial paper conduit	5,111	-	5,208 ⁽²⁾	26	-	-	-	-	-	-

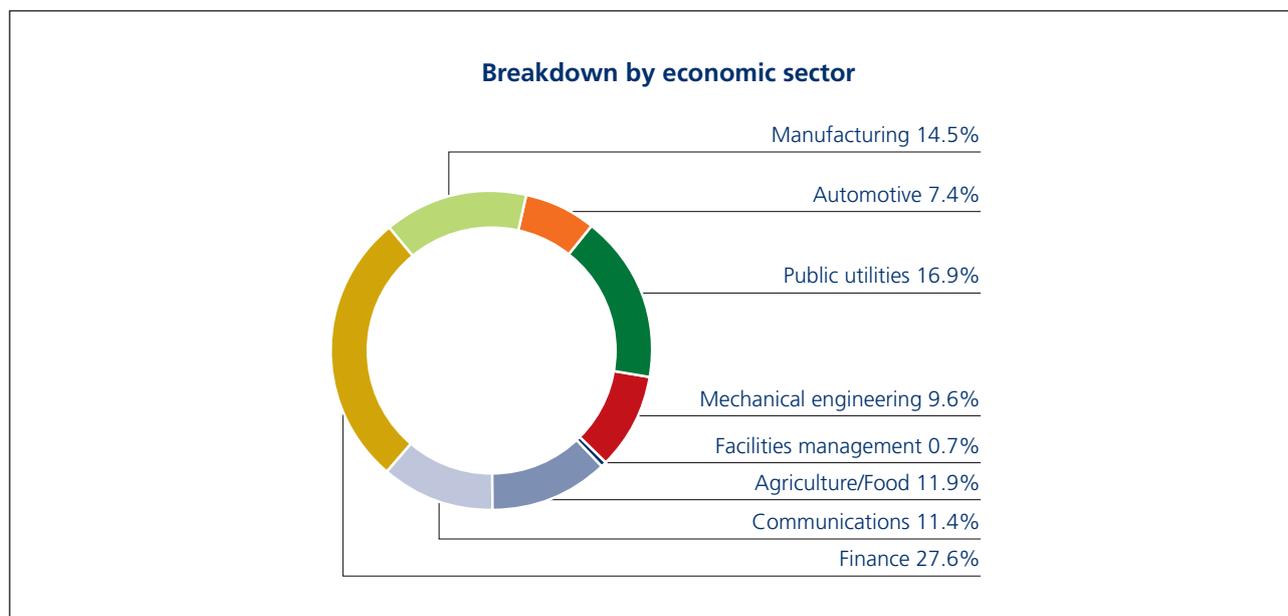
⁽¹⁾ Entirely made up of loans disbursed to Duomo for transactions booked in the financial statements of the vehicle.

⁽²⁾ of which 2,751 million euro referring to credit lines granted to cover loans of Intesa Sanpaolo Group for which did not meet the criteria for derecognition pursuant to IAS 39.

The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 0.3% of the total consolidated assets.

The portfolio risk of the two vehicles is approximately 65% accounted for by trade receivables and the remainder by consumer loans (10%), loans deriving from lease contracts (8%), inventory-backed loans (7%), factoring contracts (5%), mortgage loans (3%) and loans/lease contracts to pharmaceutical companies (2%). Almost all of the eligible assets held by the vehicles are expressed in euro (92% of the total portfolio). The remainder is denominated primarily in British pounds (3%) and US dollars (5%).

The following information is provided concerning the portfolio of eligible assets.



With regard to the rating breakdown of the loan portfolio, around 99.8% does not have a rating.

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 97% of the debtors are located in Italy.

RISANAMENTO GROUP

Qualitative and quantitative information

With regard to the risks of other companies, mention should also be made of the potential effects of the unfavourable real-estate market situation on the Risanamento Group, in consideration of the specific nature of that Group's business.

Expectations for the real-estate sector are conditioned by economic growth, difficult credit access conditions and the high unemployment rate. The situation of the real-estate sector thus continues to appear uncertain and complex, just as the macroeconomic context of reference. Indeed, the expected performance of the real-estate market in the coming months is linked to the development of the complex economic scenario.

The real-estate market is subject to the cyclical performance of rent values and property prices. The length of such cycles varies, but normally spans multiple years. The macro-economic factors with the greatest influence on property values and cyclical performance are as follows:

- interest rate performance;
- market liquidity and access to remunerative alternative investments;
- economic growth.

The Risanamento Group's management policy is aimed at minimising the effects of the various phases of the cycle through long-term contracts with tenants of high standing, low vacancy rates to avoid the risk of having to locate new tenants in periods of limited demand for lease space, and investments in development projects with high quality standards.

The main risks specifically relating to real estate managed by the Risanamento Group are represented below.

Inability to sell / valuation of assets not in line with the Risanamento Group's strategic projections

This risk relates to all potential events that may influence the achievement of the sales and lease targets for the Risanamento Group's assets. At present, the ability to identify potential commercial tenants that meet the Company's expected needs and requirements is often subject to factors and circumstances beyond the Company's control. The consequences for operations could translate into a decrease in purchasing transactions and an increase in vacant properties.

The Risanamento Group manages this risk through constant monitoring of commercial activities and observance of strategic objectives that allow it to assess and implement sales actions with a full awareness of the established strategic objectives, including through processes structured in the form of international tenders to involve the major global players.

In the leasing business, the Group's primary asset (which generates lease revenue of around 16 million euro) is a long-term lease contract entered into with a tenant of high standing.

Risks associated with project execution

The execution of real-estate initiatives presents risks associated with planning activity, environmental problems, building activity, and the length and potential exposure of the initiative to the cyclical nature of the real-estate market.

This latter aspect is inherent in larger, long-term projects that are inevitably affected by the cyclical nature of the real-estate sector due to the need to combine administrative formalities with innovative design quality, harnessed to stimulate demand from the market.

The potential risk in question also translates into the possibility that i) errors in or critical aspects of a design may compromise the objectives of the timeliness and proper execution of the works, and ii) the works may not be completed according to the agreed terms and conditions for reasons attributable to the contractor.

In reference to point i), the Group has implemented a structured contractor selection process aimed at identifying professionals with a track record of strong technical expertise. In addition, the Group enters into contracts that include warranty and indemnification clauses. The Group monitors the design process through constant discussions with counterparties about all related activities and verification of periodic quality status and project compliance.

In reference to point ii), the Group adopts structured supplier selection processes to select contractors that meet requirements of good character, integrity, technical and professional qualification and operational and organisational adequacy in addition to being financially solid. Contractors are constantly monitored in order to ensure constant access to information useful in assessing the situation and taking the appropriate corrective measures in a timely manner. In addition, the contracts contain warranty clauses benefiting the principal.

Subject to the risks indicated above, in 2017 the Risanamento Group signed an important agreement with a leading international operator for the implementation in partnership of the Milano Santa Giulia real estate project, which, as detailed below, represents the Group's main asset.

The signing of this agreement, even though it is currently conditional upon the occurrence of certain events, is of considerable importance for the Risanamento Group since it (i) confirms the soundness and feasibility of the project and (ii) can generate benefits and synergies both during the development and marketing phases.

The total carrying amount of the Risanamento Group's real-estate portfolio in Intesa Sanpaolo's consolidated financial statements is 970 million euro.

In further detail, the portfolio may be broken down as follows:

- owner-occupied properties: 39 million euro (registered office and place of business);
- properties held for sale: 271 million euro;
- real-estate development areas and projects: 623 million euro (Milano Santa Giulia);
- trading properties: 37 million euro.

As mentioned above, Intesa Sanpaolo does not perform management and coordination activity over Risanamento S.p.A. and its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.